Farmers had plenty of suggestions for Rep. Peter Welch, D-Vt, here Wednesday as he solicited feedback about Minnesota Rep. Colin Peterson's bill to reform dairy price supports and pricing. The plan would replace the Milk Income Loss Contract (MILC) and the Dairy Product Price Supports programs and change the federal milk order system.

The discussion is a crucial one. Although milk prices are strong now, they are expected to decline precipitously in 2012 as part of the three-year cycle.

In addition, the current political climate in Washington means there are likely to be cuts to the MILC program, which is already scheduled to see smaller payments and a lower cap on the amount of milk covered under the program.

"The limitations of MILC will get more severe," Welch said.

The new plan provides an income support program based not on the price of milk, but on the margin between the price of milk and the price of feed needed to produce that milk. The second is a supply management program.

The milk marketing changes include eliminating Classes III and IV and reducing the number of milk classes to one for fluid milk for drinking and one for milk to be processed. Currently, milk being processed into butter is priced differently than milk being processed into cheese or ice cream.

Much of what Welch heard from farmers yesterday involved, literally, tinkering at the margins.

The margin protection program would be based on the difference between the All-Milk price and feed price based on the cost of corn and alfalfa, as calculated by the National Agricultural Statistics Service (NASS). When the margin between the feed price and the all milk price fell to $4 for two straight months, producers would receive payments based upon their production. Under the MILC program, producers can receive payments on just under $3 million pounds per fiscal year. The margin program would not have such a limit. However, most farmers would receive payments based on only 75 percent of their production base. The production base would be the largest amount the farm had produced in the previous three years.
Farmers would have the option of purchasing additional protection.

"A safety net that is below the level of the floor isn't much of a safety net," said area farmer John Gorton.

The supply management program proposed by Peterson is similar to proposals put forth by Holstein, USA and supported by the local group, Dairy Farmers Working Together (DFWT), but with a couple of key differences.

As with the margin protection program, the trigger for the supply management program will be the margin between feed cost and the price of milk. When that margin falls below $6 for two consecutive months or $4 for one month, farmers will receive payment for only 98 percent of their base.

As the margins got tighter, the percentage of the base for which farmers would be paid would decrease. The intent is to provide a price signal to encourage farmers to reduce production.
Highgate farmer Bill Rowell told Welch he would like to see the trigger for the margin protection program moved closer to most farmer's actual cost of production. Most farmers need a margin of $8 to $11 in order to break even, according to an analysis done by the National Dairy Producers Organization (NDPO), of which Rowell is president.
In addition, Rowell said he would like to see farmers alerted before the margin fell. When

cheese inventories increase, indicating that the demand for milk is likely to fall, farmers should be alerted in Rowell's view, giving them time to adjust production before the pay limits kick in.

Although farmers would only be paid for 98 percent of their milk, all 100 percent would remain on the market. The payment for the excess milk would go to the federal government. Half of that money would purchase excess cheese and other dairy products, similarly to the current price support program. Twenty-five percent would be used to promote consumption of dairy products and the remainder would go to the federal government as revenue.

St. Albans farmer Paul Bourbeau objected to the funds going to the general fund, saying the funds should all go to the purchase or promotion of dairy products.
Tom Bellavance, president of Ag-Venture Financial Services, a local farm lender, objected to leaving the excess milk on the market. "If at all possible, let's get that milk off the market," he said. Reducing the supply of milk on the market should raise the price for milk.

Under the Holstein supply management proposal, farmers who did not reduce production when a reduction was called for would have paid a penalty which was to be redistributed to farmers who had reduced production, creating an incentive to comply with the reduction.

Ralph McNall, president of the St. Albans Cooperative Creamery, was one of several farmers who expressed concern about the ability of large farmers in the West to ignore the price signal and not reduce production in response to the reduction in payments. Another farmer suggested the government should track which regions the excess production is coming from. Presumably, that would allow for regional adjustments in production rather than national.

Gorton objected to the supply management program for another reason entirely stating that reducing food production when there are people in his community who are hungry "to me is stupid policy."

Welch quipped, "That's never stopped us before."Production shift

Amanda St. Pierre, a Richford farmer and president of DFWT, said the organization has been fighting for a national program because that is the only way to change dairy markets, but suggested the proposal should be looked at with an eye to its regional impacts.

"We're scared of our production being shifted to another region of the country," said St. Pierre.

For reasons of food safety and security, the bill needs to be examined in terms of what it does for regional food production. "Is this going to shift production to any one particular region?" she asked.
St. Pierre also raised the issue of flexibility. "Farmers know that things can change on a dime," said St. Pierre, who suggested the programs need to contain a mechanism for change and not be set for five or ten years with no ability to change them.

There is, however, momentum for change that is rooted in fear of the status quo, she said. While milk prices are currently on an upswing, the price of milk tends to have a three-year cycle and dairy economists have predicted 2012 will be the next decline in milk prices. The 2009 price decline saw farmers selling milk at significantly less than the cost of production, losing money with every hundredweight of milk they sold.

"We're willing to sit down at a table and get it done," said St. Pierre.

The third component of the Peterson proposal is a change on the dairy pricing system. In addition to a reduction in the number of classes of milk, farmers would no longer be paid for their components, such as protein, solids and butterfat.

Rowell suggested the loss of components' pay would not be popular, particularly with farmers who had bred their cows in order to improve component production. Another farmer called the loss of component pricing "divisive."

Leon Graves, vice president of Dairy Marketing Services, said the purchasers of milk are simply paying the order price plus premiums and are not paying based on components. It is the cooperatives that pay their members based on components, he explained. Thus, component pricing could remain in the pay structure used by the cooperatives to pay the farmers. Currently, the market administrators set a minimum price for each class of milk in each region of the country. That price is derived from the price being paid for cheese on the Chicago Mercantile Exchange.

Under the Peterson proposal prices would be based on what large cheese producers around the country are paying for milk. That would set the price for Class II milk used to make dairy products such as butter, cheese and ice cream.

The Class I, the price for fluid milk, would be based upon the lowest regional price for Class II milk as determined by the survey of cheese producers and add a regional price differential that reflects the differing cost of production in various regions of the country.

The NDPO is arguing that the survey of cheese makers should be broadened to include smaller producers in order to get a more accurate price analysis. Large producers, they argue, pay lower prices for milk.

Secondly, NDPO believes the Class I should be based upon the average price for Class II milk nationally, not the lowest regional price.

Peterson, Welch explained, chose to put out a draft of the bill in order to invite precisely this kind of discussion and allow for changes to the bill.

"We're not going to get everything we want, but we can get better than we have," said Welch.